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April 17, 2007

AGENDA ITEM 6

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Blue Shield of California's Exclusive Provider Organization and Direct Contract Counties

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Staff recommends that the Board approve Blue Shield of California's proposal to discontinue its coverage in four counties: El Dorado EPO, Lake, Napa and Plumas.

IV. INTRODUCTION:

The outcome of detailed analyses conducted by Blue Shield of California (Blue Shield) indicates that to preserve and promote cost effective health care benefits for as many state and contracting agency enrollees as possible, consideration should be given to modifying the current Blue Shield Health Maintenance Organization (HMO) service area. **Blue Shield's recommendation is to discontinue Blue Shield's HMO product in four counties: El Dorado (the Exclusive Provider Organization (EPO) portion of the county), Lake, Napa and Plumas.** This approach would improve pricing for Blue Shield's remaining 356,000 Basic members, which is 97% of the current Blue Shield Basic population, and would impact 8,500 members in the four discontinued counties.

V. BACKGROUND:

Over the past 3 years, costs for the Direct Contract (DC) and Exclusive Provider Organization (EPO) counties have been consistently higher than those in Blue Shield's HMO counties where comprehensive managed care operations are in place. In 2006, Blue Shield estimated the costs for DC counties at 21 percent above those of its HMO counties, and costs for the EPO counties at 63 percent above those of its HMO counties.

The mix of CalPERS Blue Shield enrollees between HMO and DC/EPO counties further compounds the impact of the DC/EPO costs on the Blue Shield premiums. There has been an increase in the percentage of higher cost DC/EPO enrollees which translates into higher overall premiums for CalPERS Blue Shield members. The higher costs in the DC/EPO counties, combined with the changing mix of members, indicate that keeping the status quo would pose excessive cost constraints on Blue Shield's overall health benefit plans offered to CalPERS members.

During the development of pricing for 2007, Blue Shield designated the 12 highest cost DC/EPO counties as non-core counties and recommended that coverage be either discontinued in these counties or that a Point of Service benefit design be introduced in these counties. At that time, the CalPERS board expressed concern regarding the timing of the proposal and requested that Blue Shield focus on ways to sustain coverage in the non-core counties.

Blue Shield created Regional Councils and other activities in the targeted non-core counties to identify ways to improve affordability of these counties. The Regional Councils provided education related to health care cost drivers in the non-core counties, sharing recommendations for changes necessary to preserve a managed care model, and seeking support and assistance from employers and member organization leaders to implement such changes. These meetings have resulted in action plans projected to save $4 million.

VI. ANALYSIS:

In examining health care costs in each of the non-core counties, Blue Shield created a ratio (cost-to-premium relativity ratio) that measures the amount of premium required to cover costs in a county versus the average actual amount of premium paid per member in that county. This analysis reveals that 10 of the 12 non-core counties have a cost-to-premium relativity ratio above average with 4 of the non-core counties (El Dorado EPO, Lake, Napa and Plumas) having ratios well in excess of the average. **The cost of healthcare (COHC) in these 4 highest counties exceeds the CalPERS statewide COHC by 78%.** Blue Shield's projected savings from the Regional Council action plans indicate that, even with the completion of the targeted actions, these 4 counties would remain significantly above the average cost-to-premium relativity ratio.

Blue Shield thus recommends discontinuing coverage in the four highest cost counties: El Dorado EPO, Lake, Napa and Plumas. Blue Shield recommends establishing a cost-to-premium threshold of 1.20, in which any non-core county with a cost-to-premium relativity greater than 1.20 would be recommended for exit. Each of the 4 exited counties has a cost-to-premium relativity significantly above the 1.20 threshold. Counties falling in a cost-to-premium range of between 1.10 and 1.20 would be placed in a "monitor" zone. A county in the monitor zone must make significant improvement in their cost-to-premium relativity within 1 year or the county would likely be recommended for exit the following year.

Sonoma County currently has a cost-to-premium relativity above 1.20. However Blue Shield estimates that with a Regional Council action plan, Sonoma would move into the monitor zone. Thus, Blue Shield recommends Sonoma County remain in the Blue Shield network for 2008 but would be closely monitored for a 2009 exit decision. No other non-core county currently has a cost-to-premium ratio greater than 1.10.

Discontinuing coverage in these 4 counties would result in total Basic premium savings of 2 percent[1] for members in the remaining counties, worth approximately $30 million in premium savings, and would cause member disruption for the 8,500 members residing in the exited counties. By exiting these counties, CalPERS would offer a more competitive HMO product to the remaining 356,000 Blue Shield members in its 35 county service area[2].

With the Blue Shield exit, State employees in Lake and Plumas counties would qualify for the rural subsidy as follows:

- State Basic Actives (232 subscribers) -- Would receive up to $1,500 per year in reimbursement to cover co-insurance and deductible costs
- State Basic Retirees (117 subscribers) -- Would receive up to $500 per year to cover co-insurance and deductible costs, but no premium subsidy
- State Medicare members (114 total covered lives) -- Would continue to receive reimbursement toward their Medicare Part B premium

State employees in Napa and El Dorado EPO would not qualify for a rural subsidy as CalPERS offers HMO alternatives (both with less expensive premiums than the Blue Shield HMO) in these 2 counties.

Even exiting the 4 counties, Blue Shield would still provide coverage in more non-core counties than any other HMO plan servicing California.

By exiting the 4 highest cost counties (El Dorado EPO, Lake, Napa and Plumas) CalPERS would: favorably improve the premiums for its remaining 356,000 Blue Shield basic members; decrease the Southern California subsidy of Northern California; and improve the competitiveness and health risk of its overall HMO product.

VII. STAFF RECOMMENDATION:

Staff recommends that the Board approve Blue Shield's proposal to discontinue its coverage in 4 counties: El Dorado EPO, Lake, Napa and Plumas.

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[1] Projection based on 2007 Basic plan premiums and determined on a per member per month (PMPM) basis.
[2] The 35 county service area does not include Humboldt, which will be added to the Blue Shield service area later this year.

VIII. STRATEGIC GOAL:

This item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

IX. RESULTS/COSTS:

The CalPERS costs associated with this item are included in the annual budget of the Office of Health Plan Administration.

Staff is available to respond to any questions. Paul Markovich, Senior Vice President, Large Group Business Unit, Blue Shield of California will make a detailed presentation to be distributed at the Health Benefits Committee meeting.

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Marcine Crane, Chief
Office of Health Plan Administration

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Gregory A. Franklin
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Attachment